

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3540-02
BILL NO.: HB 1957
SUBJECT: Education, Elementary and Secondary; Employees-Employers; Revenue Dept.;
Taxation and Revenue-General-Income
TYPE: Original
DATE: March 16, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	\$0 to (\$115,081)	\$0 to (\$5,103,647)	\$0 to (\$5,106,246)
Total Estimated Net Effect on <u>All</u> State Funds	\$0 to (\$115,081)	\$0 to (\$5,103,647)	\$0 to (\$5,106,246)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Elementary and Secondary Education (DESE)** state this proposal creates an income tax credit for employers who grant employees paid leave to volunteer at public schools or to attend school sponsored functions of their children. The credit is refundable. No more than \$5.0 million per year is allowed as credit on a statewide basis. Credits shall be issued in the order applications are received. DES staff state this proposal would not fiscally impact their agency.

Officials of the **Missouri Department of Labor and Industrial Relations (DOL)** state each hour an employee takes paid leave as outlined under the proposal the result could be a \$2.575 refundable tax credit (min. wage = \$5.15 divided by 2=\$2.575) for the employer. The amount of the impact would be contingent on several factors such as the number of hours of eligible leave, the increased cost to the employer for completion of the paper work, how often the employer applied for credit, postage if not faxed, and the number of granted tax credits. The amount of the impact can not be estimated.

It is assumed the Division of Employment Security (DES) would be assigned the responsibility for implementing and maintaining the program for certification and assignment of tax credits. DES's current funding is strictly for the administration and payment of Unemployment Compensation. Additional funding from General Revenue would be needed on a continuous basis to cover significant costs generated to meet the responsibilities of the program. The amount needed would be contingent on the number of employer requests for certification, employee hours, rules developed and numerous other factors, which would not be fully known until the Division developed a complete administrative plan.

It is assumed employers will be required to initiate the request for tax credit and to complete an application form developed and provided by the DES. The form would require in-depth information to determine their eligibility, maintain the integrity of the program and to deter fraud. This may include information such as employer name, address, employee's name, Social Security number, activity date, name of the school, school address, school telephone number, child's name, relationship, teacher's name, time period there, what activity the employee participated and total hours. This may also require certification by both the employee and employer.

To ensure employers are granted tax credits fairly, as provided on the first come first serve basis described, the DES assumes the program would allow employers to apply for the credit as early as when an employee's paid leave is completed. Otherwise, if the employer waited to apply for

ASSUMPTION (continued)

the credit, the balance of the available credits could be exhausted. This could generate multiple requests from any one employer. The Dept. of Revenue estimates there are approximately 134,000 employers in Missouri, who may qualify for the proposed tax credit certification. The \$5,000,000 of available credit at \$2.575 per hour allows for approximately 1,941,747.5 hours of leave for DES to review for certification.

DOL's legal section estimates it would need at least 40 hours to assist in developing rules. At a rate of \$28.18 per hour this would indicate part of the cost for promulgating rules will be at least \$1,127 and more.

Costs for mailing applications, determinations and yearly certifications to employers would be based on an estimated 27 cents for each item. Postage could exceed \$36,180, which is based on one-third of the employers requesting credit (3 mailings per employer). This may require additional mail room staff, which has not been included in the cost and depends on the increased amount of mail generated.

The Information Systems has reported programming to support basic functions of the tax credit process such as generating yearly certifications, approval and denial letters would be a one time cost estimate of \$62,352 with maintenance estimated at \$3,759 per year. This does not include programming to cross-check certified tax credit employers and employees with employers and employees listed on the DES's quarterly wage reports for verification/fraud purposes to determine if they actually worked there.

An additional imaging system would be needed to handle the increase volume of recorded documentation. This is estimated to be at \$10,000.

The Unemployment Compensation Trust Fund (UCTF) is strictly for the payment of unemployment compensation (UC) and can not be used to cover the costs generated from the proposal. The agency's administration account is funded by federal grants and is restricted to the administration of the UC program. Special appropriation from General Revenue would be needed to cover these costs. Estimated costs for only six months of the FY 2001 is shown because the program is not effective until 01-01-2001. This amount is estimated to be \$626,052 or more, which includes legal cost. The estimated negative impacts for the FY 2002 is \$817,759 and for the FY 2003 is \$848,318. These amounts could be substantially more depending not only on the work load, but additional programming may be necessary after the program is started, or it is found that additional space is needed to facilitate the increased staff and other factors.

ASSUMPTION (continued)

Oversight assumes, for purposes of this fiscal note, that the Department of Labor and Industrial Relations could handle the provisions of this proposal with up to 2 Contributions Tech I's and 2 Clerk II's and the corresponding equipment and expense. **Oversight** has ranged the administrative impact on the Department of Labor and Industrial Relations from 0 to 4 FTE.

Officials of the **Department of Revenue (DOR)** state this legislation would grant employers that allow an employee paid leave to volunteer at a public elementary or secondary school a credit against Chapter 143, excluding withholding taxes, in the amount of 50% of the amount of the federal minimum wage for each such hour of paid leave per employee.

The number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 130,000 returns filed with this credit and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the credit. The Division of Taxation will also need one Tax Processing Tech I for every 30,000 errors generated by this legislation.

This legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of \$41,617. Modifications to the income tax returns and schedules will be completed with existing resources.

Oversight assumes the Department of Revenue would require 346 hours of overtime at a cost of \$10,404 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$2,815 for additional storage and fields to be captured.

	FY 2001	FY 2002	FY 2003
<u>FISCAL IMPACT - State Government</u>	(10 Mo.)		

GENERAL REVENUE FUND

Loss to General Revenue Fund

Income tax credit for paid leave	\$0	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
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	FY 2001	FY 2002	FY 2003
<u>FISCAL IMPACT - State Government</u>	(10 Mo.)		

Cost to General Revenue Fund
Department of Labor and Industrial
Relations (DOL)

Personal Service (0 to 4 FTE)	\$0 to (\$63,680)	\$0 to (\$78,326)	\$0 to (\$80,285)
Fringe Benefits	\$0 to (\$19,582)	\$0 to (\$24,085)	\$0 to (\$24,688)
Expense and Equipment	<u>\$0 to (\$18,600)</u>	<u>\$0 to (\$1,236)</u>	<u>\$0 to (\$1,273)</u>
Total Administrative Cost-DOL	\$0 to (\$101,862)	\$0 to (\$103,647)	\$0 to (\$106,246)

Costs - Department of Revenue

Reprogramming costs	\$0 to (\$13,219)	\$0	\$0
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**ESTIMATED NET EFFECT ON
 GENERAL REVENUE FUND**

<u>\$0 to</u>	<u>\$0 to</u>	<u>\$0 to</u>
<u>(\$115,081)</u>	<u>(\$5,103,647)</u>	<u>(\$5,106,246)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2001	FY 2002	FY 2003
	(10 Mo.)		
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent that they grant their employees paid leave to volunteer at public schools and that they would apply and receive a tax credit for that educational purpose.

L.R. NO. 3540-02
BILL NO. HB 1957
PAGE 6 OF 6
March 16, 2000

DESCRIPTION

This bill authorizes employers an income tax credit for paid leave granted to employees to volunteer at a public school sponsored function with an educational purpose. The employee must be attending a function of their biological, adopted, step or foster child or of a child for whom the employee is the legal guardian.

The income tax credit for the employer will be equal to 50% of the amount of federal minimum wage for each hour of paid leave granted to an employee. The tax credit is refundable and the maximum statewide credits authorized cannot exceed \$5 million.

The employer must submit an application for the tax credit with the Department of Labor and Industrial Relations and obtain a certificate of tax credit prior to applying the credit to tax liability. The department will issue the tax credits in the order they are received.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Missouri Department of Labor and Industrial Relations
Department of Elementary and Secondary Education
Department of Revenue



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Director
March 16, 2000